

## Request for City Council Action

Date: September 19, 2002

To: Council Member Lisa Goodman, Community Development Committee

Prepared by Dollie Crowther, Senior Project Coordinator, Phone 612-673-5263

Approved by Chuck Lutz, MCDA Interim Executive Director \_\_\_\_\_

**Subject: Request for Preliminary Approval of up to \$2,850,000 of Tax Exempt Multi-family Entitlement Rental Housing Revenue Bonds for the East Phillips Commons Project**

**Previous Directives:** On March 26, 2001 the MCDA Board authorized staff to proceed with analysis of the 29<sup>th</sup> Street Corridor Project proposal and to negotiate terms and conditions of a redevelopment contract with Sherman Associates. On June 21, 2002, the City Counsel approved adoption of the Redevelopment Plan and the East Phillips Phase I Tax Increment Plan.

**Ward:** 8

**Neighborhood Group Notification:** On June 16, 2001 the Powderhorn Park Neighborhood Association (PPNA) approved the project. On July 11, 2001 the Midtown Phillips Council approved this project and on March 26, 2001 the East Phillips Improvement Coalition approved the development of this project.

**Consistency with *Building a City That Works*:** Provide a diversity of housing choices within each community by providing financial assistance for new and existing housing.

**Comprehensive Plan Compliance:** Complies.

**Zoning Code Compliance:** Complies.

**Impact on MCDA Budget:** (Check those that apply)

- ☐ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action requires use of contingency or reserves
- ☒ Other financial impact (Explain): Annual bond fees will be collected when the bonds are issued.

**Living Wage / Business Subsidy:** NA

**Job Linkage:** NA

**Affirmative Action Compliance:** Will comply.

**RECOMMENDATION:**

**City Council Recommendation:** The Interim Executive Director recommends that the City Council adopt the attached resolution giving preliminary approval of up to \$2,850,000 in Tax Exempt Multi-family Entitlement Rental Housing Revenue Bonds for the East Phillips Commons Project. Summary publication of the Resolution is recommended.

**Dear Council Member Goodman:**

**Background Information**

On March 26, 2001 the MCDA Board authorized staff to proceed with analysis of the 29<sup>th</sup> Street Corridor Project proposal and negotiate terms and conditions of a redevelopment contract with Sherman Associates. On June 21, 2002 the City Council approved adoption of the Lake and Bloomington Development Plan and the East Phillips Commons Phase I, Tax Increment Plan.

Sherman Associates will be the general partner in the limited partnership that will be developing the Lake and Bloomington Project called the East Phillips Commons Limited Partnership. Sherman Associates specializes in the design, construction and financing of housing and commercial properties.

**Project Description**

Sherman Associates, Inc. is proposing construction of 4 live work 2 bedroom ownership units and 30 rental apartments. The apartments will have underground parking and tuck under parking for the live work units. In addition, 4,400 square feet of commercial/retail space will be a part of the housing project. This rental space will be aimed at local businesses. Also included on the first level is an Early Childhood Resource Center with a multi-lingual day care training center for training future ethnically specific daycare providers. The first level will include a community meeting room and office space for EPIC. The project is located on portions of approximately one and one half blocks north of East Lake Street between Bloomington Avenue South and 16<sup>th</sup> Avenue South. The project is close to the proposed Lake Street LRT station and offers residents the convenience of biking or walking to the station. A TIF District has been created for the project.

The 30 affordable rental housing units consists of 7 one-bedroom units, 15 two-bedroom units, and 8 three-bedroom units. It is anticipated that 40% of the units will be at 50% or less of median income and the remaining units will be below 80% of median income. The developer will be requesting Section 8 project based assistance for 8 of the units. The developer has also requested MARIF funds from the MHFA for the project.

**Financing**

East Phillips Commons Limited Partnership is requesting up to \$2,850,000 in tax exempt Multi-family Entitlement Rental Housing Revenue Bonds for the acquisition and construction expenses with this development. The bonds will be FHA insured and rated AAA and will carry a 42 year term. With the Entitlement bonds the partnership will receive an automatic 4% allocation of tax credits for the project.

### **Sources of Funds**

Tax Exempt Series A Bonds	\$2,600,000.00	
Tax Exempt Series B Bonds	250,000.00	
MARIF	900,000.00	committed
NRP (EPIC)	150,000.00	committed
NRP Affordability	515,000.00	committed
Tax Credit Equity	1,364,816.00	
AHIF	600,000.00	

Total Sources	\$6,379,816.00	
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### **Uses of Funds**

Construction	\$3,439,207.00
Construction Contingency	103,376.00
Construction Interest	73,179.00
Land	1,050,000.00
Demolition	75,000.00
Relocation	70,000.00
Arch & Eng	153,500.00
Survey & Civil	25,000.00
Legal	115,000.00
Appraisal	7,000.00
SAC	24,500.00
Accounting	27,000.00
Soil Borings	7,600.00
Developer Fee & Overhead	595,000.00
Inspection	7,500.00
Taxes, Insurance	40,705.00
Payment & Perf Bd	32,000.00
Origination Fee	55,000.00
Insp FHA	13,250.00
Title & Rec.	15,000.00
FHA exam	7,950.00
Cost of Issuance	135,000.00
Market Study	12,800.00
Tax Credit Fees	12,000.00
Other	55,910.00
Operating Reserve	125,339.00
Neg Arbitrage	87,000.00

Bond Fund	15,000.00
Total Uses	\$6,379,816.00

The project was also approved for public assistance in the form of a pay as you go TIF note. The housing revenue bonds is the up front funding for the tax increment which is the developer's first mortgage financing. The TIF will be available to reimburse the developer for the negotiated amount of TIF eligible public expenditures.

**HRB ENTITLEMENT:** The 2002 HRB City of Minneapolis entitlement is \$33,547,000. Final approvals for the Many Rivers Project (\$4,150,000) Bottineau Lofts (\$5,640,000) Stone Arch Apartments (\$3,600,000) and West River Commons (\$8,200,000) leaves a balance of \$11,957,000. After the 29<sup>th</sup> Street Corridor Project, the remaining balance will be \$9,107,000. Any unused entitlement authority for 2002 would be carried forward for single-family bonds.

**Bond Counsel:** Best & Flanagan

**Underwriter:** Piper Jaffrey

**Council Member Informed:** Yes, Ward 6.

**Recommendation:**

**City Council Recommendation:** The Interim Executive Director recommends that the City Council adopt the attached resolution giving preliminary approval of up to \$2,850,000 in Tax Exempt Multi-family Entitlement Rental Housing Revenue Bonds for the East Phillips Commons Project. Summary publication of the Resolution is recommended.

For further information, please call Dollie Crowther at 612-673-5263.

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Giving preliminary approval to the issuance of tax-exempt multifamily housing revenue bonds under Minnesota Statutes, Chapter 462C for the purpose of financing a housing program consisting of the acquisition and construction of a multifamily rental housing development for the benefit of East Phillips Commons Limited Partnership.

WHEREAS, the City of Minneapolis, Minnesota (the “City”) is authorized, pursuant to Minnesota Statutes, Chapter 462C, as amended (the “Act”) to develop and administer programs to finance one or more multifamily housing developments within its boundaries; and

WHEREAS, Section 462C.07 of the Act authorizes the City to issue and sell revenue bonds or obligations to finance programs for the multifamily housing developments; and

WHEREAS, representatives of East Phillips Commons Limited Partnership, a Minnesota limited partnership (the “Developer”) has requested that the City adopt a multifamily housing development program (the “Program”) to provide for the issuance of up to \$2,850,000 of its tax-exempt multifamily housing revenue bonds, in one or more series (the “Bonds”) for the purpose of loaning the proceeds thereof to the Developer to finance the acquisition and construction by the Developer of a 30-unit multifamily rental housing development to be located at 2901 Bloomington Avenue South in the City (the “Project”); and

WHEREAS, the Developer has paid and expects to pay certain expenditures (the “Reimbursement Expenditures”) in connection with the Project prior to the issuance of indebtedness for the purpose of financing costs associated with the Project on a long-term basis and certain of the proceeds of the Bonds will be used to reimburse the Reimbursement Expenditures;

WHEREAS, the Community Development Committee of the Minneapolis City Council, on behalf of the City held a public hearing on the Program and proposed issuance of the Bonds after at least 15 days published notice hereof and after submission of the Program to the Metropolitan Council for review and comment; and

WHEREAS, the Council has been advised by U.S. Bancorp Piper Jaffray Inc., representing the Developer, that on the basis of information available to them, the Project is economically feasible and the Bonds could be successfully issued and sold; and

WHEREAS, the City has been advised by the Developer that conventional commercial financing is available to pay the capital costs of the Project only on a limited basis and at such high costs of borrowing that the scope of the Project and the economic feasibility of its operations would be significantly affected; and

WHEREAS, the City shall not be liable on the Bonds, and the Bonds shall not be a debt of the City within the meaning of any state constitutional provision or statutory limitation, and will not constitute or give rise to a charge against the general credit or taxing power of the City or a pecuniary

liability of the city, nor shall the Bonds be payable out of any funds or properties other than those provided as security therefor;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL FOR THE CITY OF MINNEAPOLIS:

That the Program is hereby approved and adopted by the City.

Be It Further Resolved that the issuance of the Bonds pursuant to the Program in a principal amount not to exceed \$2,850,000 is preliminarily approved.

Be It Further Resolved that the City hereby reserves \$2,850,000 of its 2002 housing revenue bond entitlement authority for the financing of the Project.

Be It Further Resolved that the City hereby makes this declaration for purposes of establishing compliance with the requirements of Section 1.150-2 of the Treasury Regulations.

Be It Further Resolved that the City hereby declares its official intent to use proceeds of indebtedness to reimburse the Developer for Reimbursement Expenditures, including those expenditures made sixty days prior to adoption of this Resolution.

Be It Further Resolved that the foregoing preliminary approval of the issuance of Bonds shall be subject to final determination by the City of terms and conditions and shall not constitute an irrevocable commitment on the part of the City to issue the Bonds.

Be It Further Resolved that the staff of the Minneapolis Community Development Agency is hereby authorized, in cooperation with bond counsel to take all steps necessary and desirable to proceed to develop the Program and financing therefor.